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# 1979 ANNUAL REPORT

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Somerville Belkin Industries Limited



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## Somerville Belkin Industries Limited,

with its head office located in Mississauga, Ontario, operates eleven plants — in Montreal, Brockville, Toronto, Bramalea, London, Windsor, Winnipeg, Richmond, and Burnaby.

The Company produces folding cartons, flexible packaging, vacuum formed, compression and injection moulded plastics, automotive products, and provides merchandising services.



## Report to Shareholders



Morris Belkin



Robert F. Krause

The sales of Somerville Belkin Industries Limited for the fiscal year ending September 30, 1979 amounted to \$112,399,000 compared to \$94,631,000 in the period ending September 30, 1978. The two figures are not comparable inasmuch as the fiscal 1979 figures include the five month results of National Paper Box.

Earnings declined to \$1,725,000 from the 1978 fiscal earnings of \$2,158,000 primarily due to a five and one half month labour strike at two of the eastern packaging plants. This, coupled with high interest rates and intense competitive pressures further depressed earnings. Operating cash flow for the period was \$4,121,000 as compared to \$4,636,000 in fiscal 1978.

Packaging sales for the twelve months to September, 1979 were \$92,484,000 compared to \$75,706,000 achieved in the comparable period of 1978. Other divisions of the company achieved sales of \$19,915,000 which compares with \$18,924,000 in the previous period. The sales increase was attributable to a strong first half

performance of the Automotive Products Division, although demand for reinforced plastic panels and automotive parts weakened in the last half of the year.

Merchandising Services, Plastics Division, Games Division and the Automotive Products Divisions all had profit improvements over fiscal 1978.

The Brockville, Ontario packaging plant which was established in 1977, experienced a significant improvement in profitability as did the Winnipeg and Richmond, B.C. plants. The five months' earnings contributions of National Paper Box were substantial.

The Montreal packaging plant, one of our largest facilities, and the printing department of the London packaging plant, were both shut down as a result of a labour strike by the Graphic Arts International Union. On May 4, 1979 this union entered a strike with Somerville Belkin's two plants as well as with three other folding carton manufacturers in Eastern Canada that

was not settled until October, 1979. There was a significant impact on the earnings of the eastern plants as a result.

The company's equity earnings in Mastico Industries Limited, in which it holds a 50% interest, were \$307,000 compared to \$297,000 in 1978. With decreased car sales anticipated in 1980 the company is making a concentrated effort to expand into non-automotive markets.

On April 30, 1979 Somerville Belkin acquired the Burnaby, B.C. folding carton division of MacMillan Bloedel. This division, now operating as National Paper Box, services the western Canadian folding carton, Pure-Pak and set-up box markets. The company has also announced its intention to build a milk carton packaging plant in Edmonton, Alberta which should be in production in early 1980.

At the Toronto packaging plant a new 6 Colour Offset press as well as a companion cutting press were recently installed. This equipment is the latest and fastest available.

In September, 1979 the Games Division was sold to Copp Clark Limited of Toronto. We are retaining a contract to manufacture games and puzzles for Copp Clark Limited in the London plant for at least three years.

We wish to express our appreciation for the continuing support of all our employees this past year.

While net earnings for the last year were disappointing, we are looking forward to next year with cautious optimism.

M. Belkin,  
Chairman of the Board

Robert F. Krause,  
President and Chief Executive Officer



# Consolidated Balance Sheet

(000's omitted)

Somerville Belkin Industries Limited  
(Incorporated under the laws of Canada)  
As at September 30, 1979  
(with comparative amounts as at September 30, 1978)

<b>ASSETS</b>	<b>1979</b>	<b>1978</b>
Current Assets		
Accounts receivable .....	<b>\$18,777</b>	\$16,020
Receivable from parent company, Belkin Packaging Ltd. ....	<b>876</b>	
Income taxes recoverable .....	<b>263</b>	900
Inventories (note 3) .....	<b>26,408</b>	20,175
Prepaid expenses .....	<b>639</b>	762
	<b><u>46,963</u></b>	<u>37,857</u>
Investments		
Shares in 50% owned company — Mastico Industries Limited — at equity value .....	<b>1,230</b>	1,123
Sinking fund for preferred shares — government and industrial bonds at market values (cost \$115,405) .....	<b>108</b>	108
	<b><u>1,338</u></b>	<u>1,231</u>
Fixed Assets (note 4)		
Land, buildings and equipment .....	<b>43,864</b>	38,350
Less accumulated depreciation .....	<b>19,080</b>	17,825
	<b><u>24,784</u></b>	<u>20,525</u>
Intangibles		
Debt financing costs .....	<b>182</b>	195
Preproduction costs .....	<b>467</b>	617
	<b><u>649</u></b>	<u>812</u>
	<b><u>\$73,734</u></b>	<u>\$60,425</u>

Approved by the Board  
M. Belkin, Director  
R. F. Krause, Director

**LIABILITIES**

	<u>1979</u>	<u>1978</u>
Current Liabilities		
Bank advances (note 5).....	<b>\$21,465</b>	\$16,106
Accounts payable and accrued liabilities.....	<b>10,346</b>	7,066
Payable to parent company.....		1,555
Income and other taxes payable.....	<b>573</b>	754
Dividends payable.....	<b>20</b>	21
Long term debt payable within one year.....	<b>480</b>	555
	<u><b>32,884</b></u>	<u>26,057</u>
Long term debt (note 6) .....	<u><b>13,702</b></u>	<u>9,870</u>
Income taxes provided not currently payable.....	<u><b>6,399</b></u>	<u>5,340</u>
<b>Shareholders' equity</b>		
Capital stock (note 7).....	<b>13,875</b>	13,927
Retained earnings.....	<b>5,952</b>	4,309
Excess of appraised value of fixed assets over cost .....	<b>922</b>	922
	<u><b>20,749</b></u>	<u>19,158</u>
	<u><b>\$73,734</b></u>	<u>\$60,425</u>

# Consolidated Statement of Retained Earnings

(000's omitted)

Somerville Belkin Industries Limited  
For year ended September 30, 1979  
(with comparative amounts for the year ended September 30, 1978)

	<u>1979</u>	<u>1978</u>
Balance at beginning of year .....	<b>\$ 4,309</b>	\$ 3,730
Net income .....	<u><b>1,725</b></u>	<u>2,158</u>
	<u><b>6,034</b></u>	<u>5,888</u>
Dividends		
Preferred shares, 1953 Series .....	<b>82</b>	84
Common shares .....	<u><b>82</b></u>	<u>1,495</u>
	<u><b>82</b></u>	<u>1,579</u>
Balance at end of year .....	<u><b>\$ 5,952</b></u>	<u>\$ 4,309</u>



# Consolidated Statement of Income

(000's omitted)

Somerville Belkin Industries Limited  
For year ended September 30, 1979  
(with comparative amounts for the year ended September 30, 1978)

	<u>1979</u>	<u>1978</u>
Sales .....	<u><b>\$112,399</b></u>	<u>\$94,631</u>
Costs and expenses		
Cost of sales, selling and administrative expenses before the following items.....	<b>105,128</b>	87,841
Depreciation .....	<b>1,830</b>	1,745
Interest on long term debt .....	<b>1,231</b>	951
Other interest .....	<b>1,756</b>	1,066
Amortization of preproduction costs.....	<b>150</b>	124
Amortization of debt financing costs .....	<b>13</b>	13
	<u><b>110,108</b></u>	<u>91,740</u>
Income from operations .....	<b>2,291</b>	2,891
Equity in income of Mastico Industries Limited.....	<b>307</b>	297
Income before income taxes.....	<b>2,598</b>	3,188
Income taxes .....	<b>873</b>	1,030
Net income.....	<u><b>\$ 1,725</b></u>	<u>\$ 2,158</u>
Earnings per common share.....	<b>\$3.30</b>	\$4.16

# Consolidated Statement of Change in Financial Position

(000's omitted)

Somerville Belkin Industries Limited  
For year ended September 30, 1979  
(with comparative amounts for the year ended September 30, 1978)

	<u>1979</u>	<u>1978</u>
Working capital derived from		
Operations		
Net income .....	\$ 1,725	\$ 2,158
Items not involving working capital		
Depreciation .....	1,830	1,745
Income taxes provided not currently payable .....	1,059	948
Increase in equity in Mastico Industries Limited .....	(107)	(222)
Amortization of preproduction costs .....	150	124
Amortization of debt financing costs .....	13	13
	<u>4,670</u>	<u>4,766</u>
Financing for purchase of National Paper Box division (note 2)		
Note payable .....	2,750	
Term bank loan .....	1,562	
	<u>8,982</u>	<u>4,766</u>
Working capital applied to		
Purchase of National Paper Box division (net of working capital of \$3,000) (note 2) .....	5,250	
Purchase of fixed assets (net of disposals) .....	839	1,359
Dividends .....	82	1,579
Reduction in long term debt .....	480	555
Preproduction costs .....		249
Purchase of preferred shares for cancellation .....	52	66
	<u>6,703</u>	<u>3,808</u>
Increase in working capital .....	<u>2,279</u>	<u>958</u>
Working capital at beginning of year		
As previously reported .....	11,310	10,622
Reclassification of income taxes provided not currently payable .....	490	220
As restated .....	<u>11,800</u>	<u>10,842</u>
Working capital at end of year .....	<u>\$14,079</u>	<u>\$11,800</u>

# Notes to Consolidated Financial Statements

Somerville Belkin Industries Limited  
September 30, 1979

## 1. Summary of Significant Accounting Policies

### (a) Basis of consolidation

The consolidated financial statements include the accounts of Canadian Folding Cartons Limited and Somerville Automotive Trim Limited. These wholly owned subsidiaries are inactive.

### (b) Inventories

Inventories are valued using the first in first out method. Raw materials and supplies are valued at the lower of cost and net realizable value. Work in process and finished goods are valued at the lower of cost, which includes an allocation of factory overhead, and net realizable value.

### (c) Fixed assets and depreciation

Buildings and equipment are stated at cost except for buildings owned in 1951 and equipment owned in 1955, which are stated at depreciated replacement values in accordance with appraisals made in those years. Other fixed assets and additions subsequent to the appraisals have been shown at cost, which includes, since 1976, interest paid on funds borrowed for major equipment additions. Depreciation is provided on a straight-line basis over the estimated useful lives of the fixed assets.

### (d) Debt financing costs

Debt financing costs related to the 8½% Series A sinking fund debentures are being amortized over the twenty year term of the issue on a straight-line basis.

### (e) Preproduction costs

The Company follows the practice of deferring costs associated with major plant expansions and amortizes these costs over the five year period immediately following the commencement of commercial production.

## 2. Purchase of National Paper Box Division, Burnaby, B.C.

Effective April 30, 1979 the Company purchased a folding carton plant in Burnaby, B.C. The transaction has been accounted for on the purchase method with the results of operations included in these financial statements from date of acquisition. Details of the acquisition are as follows:

Net assets acquired at assigned values	
Working capital	\$3,000,000
Fixed assets	5,250,000
	<u>\$8,250,000</u>

### Consideration given at fair value

Cash	\$5,500,000
11.5% Note payable due January 31, 1980	2,750,000
	<u>\$8,250,000</u>

## 3. Inventories

	1979	1978
Raw materials and supplies	\$10,772,710	\$ 6,533,803
Work in process	5,997,718	5,053,940
Finished goods	9,637,682	8,587,737
	<u>\$26,408,110</u>	<u>\$20,175,480</u>

## 4. Fixed Assets

	1979		1978	
	Cost	Accumulated depreciation	Net	Net
(Note 1 (c))				
Land	\$ 2,593,462		\$ 2,593,462	\$ 1,950,554
Buildings	10,062,931	\$ 2,816,765	7,246,166	5,299,788
Machinery and equipment	30,842,025	16,142,873	14,699,152	13,039,592
Leasehold improvements	365,677	120,503	245,174	234,845
	<u>\$43,864,095</u>	<u>\$19,080,141</u>	<u>\$24,783,954</u>	<u>\$20,524,779</u>



## 5. Bank advances

The bank advances are secured by a general assignment of accounts receivable and inventories.

## 6. Long term debt

	1979	1978
(a) 8.5% Series A sinking fund debentures due April 1, 1993	\$ 7,320,000	\$ 7,500,000
(b) Term bank loan, with interest at 1.25% above bank prime rate, payable \$75,000 quarterly, plus interest	2,550,000	2,925,000
Term bank loan, with interest at 1.25% above bank prime rate, payable \$135,000 quarterly, plus interest, commencing on June 1, 1981	1,562,500	
(c) 11.5% Note payable due January 31, 1980	2,750,000	
	14,182,500	10,425,000
(d) Less payable within one year	480,000	555,000
	<u>\$13,702,500</u>	<u>\$ 9,870,000</u>

- (a) Under the terms of the Trust Indenture the 8½% Series A sinking fund debentures are secured by a floating charge on the assets of the Company.
- (b) The term bank loans are secured by a fixed and floating charge on the assets of certain operating divisions.
- (c) The 11.5% note payable is shown as long term because the Company has a specific commitment from the bank for long term financing to retire this note.
- (d) Principal due on long term debt during the next five fiscal years (after taking into account the financing in (c) above) is as follows:

1980	\$ 480,000
1981	750,000
1982	1,020,000
1983	1,020,000
1984	1,240,000

## 7. Capital stock

- (a) The Company applied for and received a Certificate of Continuance under The Canada Business Corporations Act dated August 30, 1979. The authorized capital consists of common and preferred shares of no par value.

The Company is restricted by its articles as to the maximum number of shares that can be issued as follows:

129,422 Preferred shares  
500,000 Common shares

- (b) Issued and outstanding

	Number of Shares		Amount	
	1979	1978	1979	1978
Preferred shares \$2.80 Sinking fund cumulative, 1953 series, redeemable at \$51 per share	28,382	29,422	\$ 1,419,100	\$ 1,471,100
\$4.00 Non-cumulative subordinated, 1977 series, redeemable at \$51 per share	100,000	100,000	5,000,000	5,000,000
	128,382	129,422	6,419,100	6,471,100
Common shares	498,300	498,300	7,456,300	7,456,300
			<u>\$13,875,400</u>	<u>\$13,927,400</u>

- (c) During the year, the Company purchased for cancellation 1,040 preferred shares, 1953 series (1978-1,306 shares).

## 8. Long term leases

Long term leases entered into by the Company extend into the year 1997. The minimum annual rental payable thereunder for the years 1980 to 1984 is approximately:

1980	\$1,050,000
1981	965,000
1982	953,000
1983	914,000
1984	822,000

## 9. Other statutory information

Classes of business

In the opinion of the directors the classes of business contributing in excess of 10% of sales were as follows:

	Amount		Percentage	
	1979	1978	1979	1978
Packaging	\$92,483,780	\$75,706,264	82.3	80.0
Other	19,915,158	18,924,719	17.7	20.0
	<u>\$112,398,938</u>	<u>\$94,630,983</u>	<u>100.0%</u>	<u>100.0%</u>

# Auditors' Report

To the Shareholders of  
Somerville Belkin Industries Limited

We have examined the consolidated balance sheet of Somerville Belkin Industries Limited as at September 30, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Thorne Riddell & Co.*

Chartered Accountants  
London, Canada  
November 12, 1979

## Directors

Morris Belkin  
Peter A. Cherniavsky  
Robert F. Krause  
Ian A. MacDonald  
Douglas J. McKinnon  
Forrest Rogers  
David H. Gordon

## Head Office

2000 Argentia Road  
Plaza 5, Suite 301  
Mississauga, Ontario

## Transfer Agent

The Canada Trust Company  
Toronto, London, Montreal,  
Winnipeg and Vancouver

## Stock Listing

The Toronto Stock Exchange

## Auditors

Thorne Riddell & Co.

## Officers

Morris Belkin  
Chairman of the Board

Robert F. Krause  
President and  
Chief Executive Officer

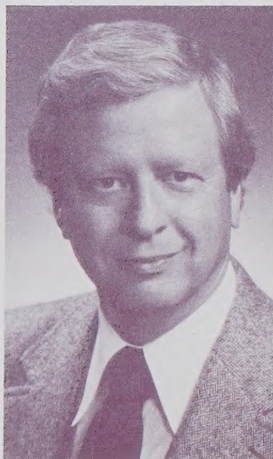
Leslie A Biddie  
Group Vice-President —  
Packaging Divisions — East

Patrick B. McGarry  
Group Vice-President —  
Packaging Divisions — West

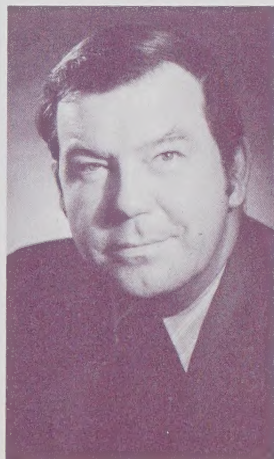
James C. Bacon  
Group Vice-President —  
Special Products Divisions

Thomas E. White  
Vice-President,  
Industrial Relations

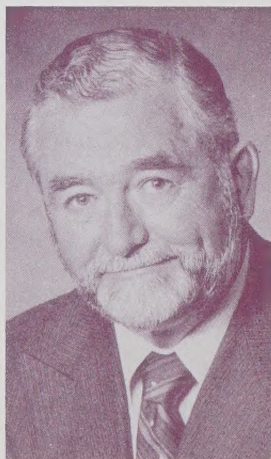
W. Ernest Doyle  
Corporate Controller



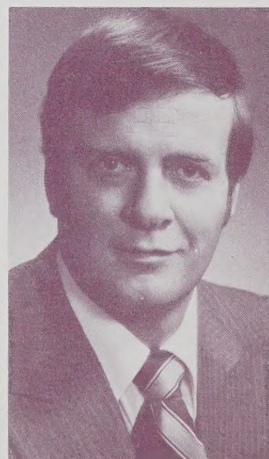
James C. Bacon



Leslie A. Biddie



Patrick B. McGarry



Thomas E. White





